LATIN AMERICA ECONOMICS UPDATE

Chile and Colombia cut rates and more easing to come

- **The decisions yesterday by Colombia's central bank to kick off its easing cycle and by Chile's to accelerate the pace of easing appears to have been driven by the substantial improvement in the external environment. We expect both central banks to continue cutting interest rates next year. But elevated price pressures mean that rates in Colombia probably won't come down as far as most expect.**
- Starting with Colombia, the central bank (BanRep) kicked off its easing cycle with a 25bp interest rate cut, to 13.00%, in a 5-2 split vote at yesterday's meeting. **The accompanying statement revealed that there were several factors that swayed policymakers to commence its easing cycle.**
- For one thing, Colombia's current account risks have eased substantially and the external environment has improved since BanRep's last meeting, with the peso appreciating against the dollar and US Treasury yields falling sharply. At the same time, the economy has entered a period of weakness and price pressures have started to ease. November's inflation reading (of 10.1% y/y) marking the eight consecutive monthly decline.
- We think that inflation will continue to fall over the course of next year, but strong wage growth will keep it above BanRep's 3±1% target. (See Chart 1.) This is clearly something policymakers are worried about. The accompanying statement called on the government for restraint in the adjustment of the minimum wage. **We expect the scale of rate cuts to be stepped up next year as inflation falls sharply, but the policy rate will probably be higher than most anticipate over the coming years**. (See Chart 2.)
- Elsewhere, **we were among the minority of forecasters to correctly predict that Chile's central bank (BCCh) would accelerate the pace of easing with a 75bp cut, to 8.25%.** Similar to Colombia, the main reason appears to have been the improvement in global risk appetite and the strengthening of the peso as well as the fact that "the macroeconomic scenario has evolved in line with expectations".
- The accompanying statement was also relatively dovish on inflation, which is now expected to "converge to the 3% target in the second half of 2024". (See Chart 3.) That, in turn, "will require further cuts in the MPR". **This leaves us comfortable with our view that Chile's central bank will lower its policy rate to 5.25% by the end of next year.** (See Chart 4.)

Chart 1: Colombia Consumer Prices (% y/y)

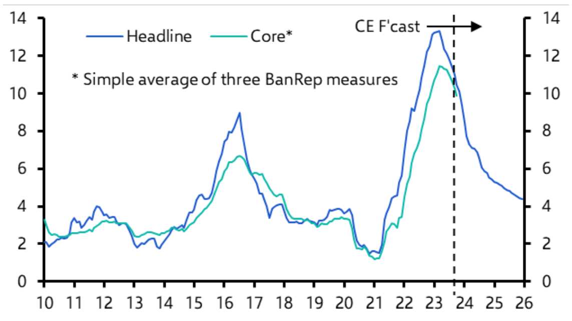


Chart 2: Colombia Policy Rate (%)

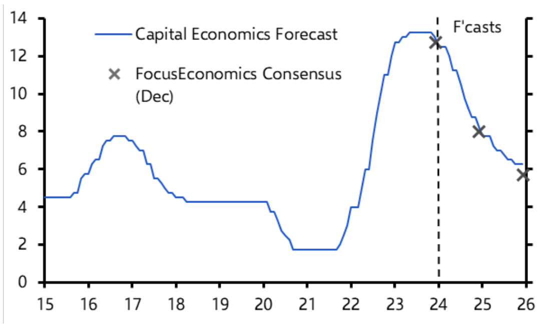


Chart 3: Chile Consumer Prices (% y/y)

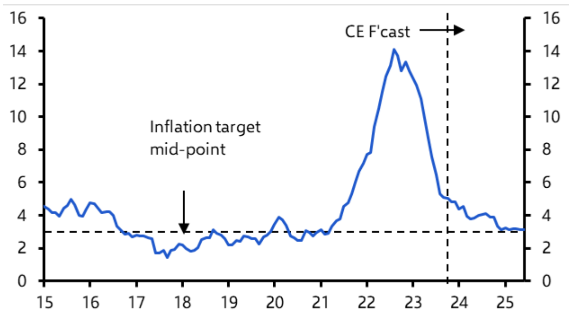
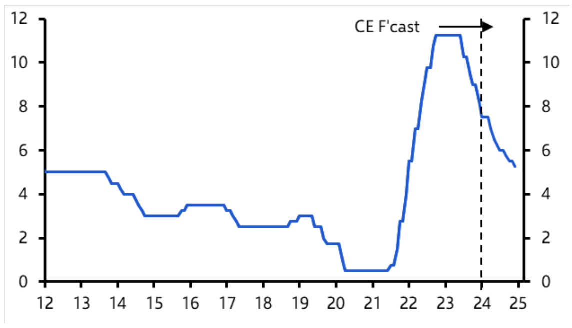


Chart 4: Chile Policy Rate (%)



Source: Refinitiv, Capital Economics,

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